NATIONAL STOCK EXCHANGE OF INDIA LIMITED

NIFTY 50 Stock of the nation

July 19, 2010

Press Release

National Stock Exchange (NSE) announces launch of Real Time dissemination of India VIX

- *The first real time Volatility Index in India*
- *Goes live from 9am today, July 19, 2010*

Mumbai, July 19, 2010: The National Stock Exchange is pleased to announce that for the first time in India, a volatility index is being disseminated, on a real time basis on an Indian exchange, from Monday, the 19th of July.

The volatility index called the India VIX, indicates the ***investor's perception*** of the market's volatility in the near term. The index depicts the expected market volatility over the next 30 calendar days. i.e. higher the India VIX values, higher the expected volatility and vice-versa.

So far, the volatility index, which is expressed in a percentage figure, was shown at the end of the day. But now it will be displayed on a real time basis.

NSE will be applying to SEBI for permission to start derivatives on the index, after it has been tracked for a suitable period. Once the futures and options start on the index, investors whose portfolios are affected by volatility in the market can use the product to hedge their risks.

Mr Ravi Narain, MD & CEO, NSE says ''In the last few years, markets around the world have seen higher volatility. India is no exception and it has also witnessed higher volatility. Once India VIX is available for trading after regulatory approvals, it will give a lot of security to investors and traders, who face uncertainty, because the new product will empower them with better information and foresight. More importantly, it will give them the ability, to use the product to hedge their portfolios against the risk arising out of volatility. ''

India VIX is a volatility index based on the index option prices of NSE's benchmark index NIFTY. India VIX is computed using the best bid and ask quotes of the out-of-the-money near and mid-month NIFTY option contracts, which are traded on the F&O segment of NSE.

The factors which will be taken into account to calculate the index include the following

1) Time to expiry of the options contracts of Nifty that are selected to calculate the index.

2) Interest rate: The NSE Mibor rate is being considered as risk-free interest rate for the respective expiry months of the NIFTY option contracts.
3) A methodology called the forward index level is being used to select the contracts which will be used to calculate the index.

4) From these selected contracts, the best bid and ask spreads will be chosen.

5) Weightage is given to each of the options contracts that are chosen. ,as per the method adopted by the Chicago Board of options exchange (CBOE). The weightage of a single options contract is directly proportional to the average of best bid-ask spread of that option contract and inversely proportional to the option contract's strike price.

India VIX indicates the market's perception of the expected near term volatility. All securities portfolios are subjected to volatility.

Before starting derivatives on the volatility index, the index will be disseminated on a real time basis, so that market participants can understand the behaviour of the index, before trading on it.

VIX is a trademark of CBOE Incorporated and Standard and Poor's has given a license to NSE, with permission from CBOE, to use this trademark in the name of India VIX and for purposes relating to India VIX.

Volatility refers to the amount of uncertainty or risk about the size of changes in a security or index value. A higher volatility means that a security's value can potentially vary over a larger range of values. This means that the price of the security can change dramatically. A lower volatility means that a security's value does not fluctuate dramatically, but changes in value at a steady pace over a period of time

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